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DIRECTORATE OF
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19 September 1968

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South Vietnam: Communist military activity generally tapered off throughout the country on 17-18 September.

In the coastal II Corps province of Binh Thuan, however, a Viet Cong battalion overran a district headquarters and US advisory compound. South Vietnamese Army forces counterattacked and drove the Communists off but lost 39 men killed in the fighting. The enemy lost nine dead. US casualties were two wounded.

Sporadic ground action continued north of the "Rockpile," south of Da Nang, and in Tay Ninh Province but no major battles developed. Allied sweeps north and west of the "Rockpile" continue to uncover significant enemy arms caches.

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Czechoslovakia-UN: Prague will oppose any but the most generalized discussion of the Czechoslovak situation when the General Assembly convenes next week.

Czechoslovakia's Foreign Ministry and UN mission have apparently not come under Soviet influence, but the Czechoslovaks in their UN posture will try to avoid antagonizing the Soviets as a matter of prudence. A member of Prague's UN mission predicts that they would not participate in debating an item specifically referring to the crisis, and might even walk out. They would take part, however, in debate on a general item which avoided referring directly to the situation but provided an opportunity to discuss it. They would not comment on circumstances in Czechoslovakia except to rebut "misinterpretations" by overzealous non-Communist delegations.

The biggest problem for the delegation would be in dealing with the claims of the Soviets and others that Czechoslovakia before 20 August was a hotbed of counterrevolution and anti - Warsaw Pact sentiment.

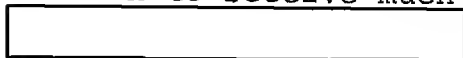
Soviet representative Malik has given notice that the USSR will strenuously oppose further UN consideration of the Czechoslovak situation by means of procedural debates and filibuster. Malik has asked the Chilean representative to halt his efforts to raise the question in the assembly. The Soviet efforts seem likely to fail, considering the number of countries--especially in Latin America and Europe--anxious to debate the issue at the assembly. Several delegations are considering some form of general item, tending to reaffirm the broad principles of nonintervention.

The Yugoslavs have been actively consulting other UN delegations on how to treat the situation in the

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assembly. They now appear to doubt that any agenda item on the subject would be in the best interests of Czechoslovakia at this time. Even if no initiative for such an item develops, however, the situation is certain to receive much attention in the general debate.



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USSR - West Germany: The latest Soviet propaganda assault on West Germany is likely to increase Bonn's anxiety, already heightened by the Czechoslovak crisis.

A Pravda article summarized by TASS yesterday restated the claim that the Potsdam agreement and the UN Charter legally empower the USSR and the three Western allies to act, "if the need arises," to check "the revival of German militarism and Nazism." Moscow has made both claims publicly before and has included them in Soviet diplomatic notes to Bonn. The Soviets cited the charter last November and again in July, and have increasingly referred to the Potsdam rights since late 1966.

The Soviet intervention in Czechoslovakia, however, has lent additional impact to the current warning. The number of Soviet divisions deployed there and in East Germany has heightened nervousness in West Germany about Soviet military intentions. Moscow has also raised tensions in West Germany by seeking to place on Bonn the onus for the situation in Czechoslovakia. As a means of justifying Moscow's own actions, Soviet propaganda has seized on the activities of the right-wing National Democratic Party, current West German Army maneuvers, and Bonn's calls for a strengthening of NATO's military posture.

Moscow's attacks thus appear aimed at taking some of the heat off itself and at the same time restating its claim to a right to pass judgment on German political developments. Refutation of this Soviet position by the coordinated Allied statements published by the US, Britain, and France yesterday had been forecast in the Western press. The Pravda article clearly anticipated them. Moscow is likely to continue to use this line to counter diplomatic notes which the Allies are now preparing, protesting the use of East German troops in Czechoslovakia.

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Portugal: President Thomaz, under increasing pressure from influential groups to appoint a new prime minister to replace the ailing Salazar, may announce his decision soon.

Thomaz had preferred to wait, on the remote chance of obtaining Salazar's advice. He has now, however, obtained approval from military and civilian leaders to appoint Marcelo Caetano as prime minister, [REDACTED] Caetano is an administrative law expert and former cabinet member known as the chief architect of the corporative system of the present regime. He has long been rumored as a possible Salazar successor.

Caetano reportedly will be designated with the understanding that the present minister of defense, the chief of the armed forces general staff, and the secret police chief will remain in the new government. Two other possible choices to replace Salazar have reportedly been selected to become deputy prime ministers.

Jockeying for power may not be over, however. Even though the decision to name Caetano appears firm, there are rumors that he is insisting on a free hand in choosing his cabinet. [REDACTED]

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Panama: President-elect Arias' plans to reduce the influence of the National Guard are likely to encounter stiff opposition.

There are tentative indications that Arias intends to lessen the effectiveness of the guard as a counterbalance to his authority by increasing the size of the National Department of Investigations (DENI), Panama's small secret police organization.

[REDACTED]

The Arias-controlled Panama Municipal Council has already introduced a proposal to create a municipal police force--a move which is also regarded with suspicion by the guard.

Arias says he will accept guard Commandant Vallarino's resignation on 1 October--the date Arias will be inaugurated. Although Vallarino is reluctant to step down, [REDACTED] he seems reconciled to retirement if Arias does not reappoint him as commandant or attempt to reduce the guard's status.

Any attempt by Arias to decrease the influence of the guard would reinforce the fears of his wealthy coalition partners and key guard officers that he is once again returning to the authoritarianism for which he was twice before forced from office. Moreover, Arias' insistence on such a change might harden Vallarino's determination to remain--a course which could lead to serious difficulties between Arias and the very sectors he needs to retain power. [REDACTED]

[REDACTED]

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Peru: Opposition to the government's agreement with a large US-owned oil company is increasing tensions and giving rise to reports of military plotting.

The agreement nationalizing the holdings of the International Petroleum Company (IPC) in the La Brea and Parinas oil fields permits the company to operate the fields free of charges until the state takes possession in January. Nationalists oppose this, as well as the provision enabling IPC to retain and enlarge its Talara refinery. The head of the state oil company has resigned over the issue, and leftist and nationalistic politicians in congress have joined him in protesting the agreement. There are also indications that high-ranking military leaders are dissatisfied with the government's handling of the situation.

There have been rumors in Lima of a possible military coup, but the real fear in government and political circles is that military opposition on this issue will force the cabinet to resign.

The opposition APRA party, which holds a majority in congress, has introduced legislation designed to ease the controversy over the petroleum issue and eliminate the danger of a military move. The APRA proposals call for an immediate takeover of the oil fields and a gradual nationalization of all oil refineries. They would also require IPC to pay for oil extracted since the signing of the agreement on 13 August.

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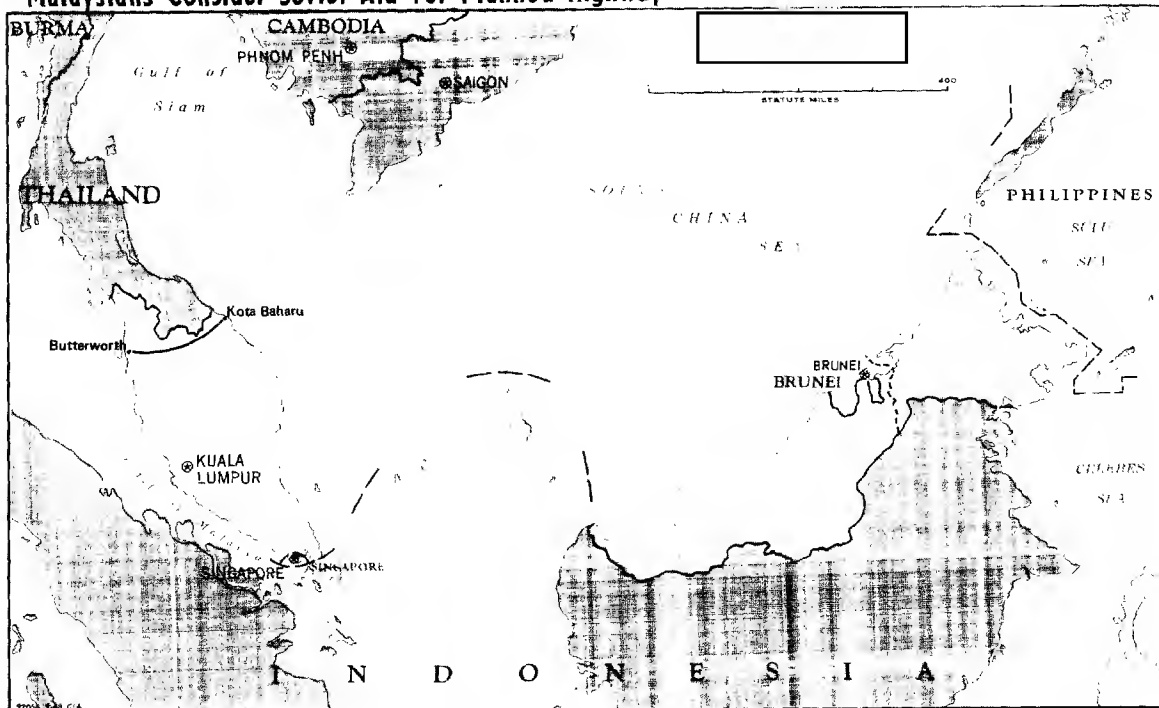
Malaysia-USSR: Malaysia is considering accepting Soviet assistance in the construction of a planned east-west highway linking Kota Baharu and Butterworth.

Kuala Lumpur decided last week to proceed with a feasibility study of the project. The USSR expressed willingness earlier this year to provide aid for several proposed Malaysian economic projects, including the highway. If accepted, this would be the first Soviet-assisted project in Malaysia.

The USSR has been urging Malaysia to expand economic ties since November 1967 when the two countries initiated diplomatic relations and Moscow established its first permanent trade mission in Kuala Lumpur. The USSR, the leading buyer of Malaysian rubber, purchased some \$64 million worth out of total Malaysian sales of \$400 million in 1967. Moscow may hope to reduce the need to use cash for future purchases by supplying construction equipment instead.

[REDACTED]

Malaysians Consider Soviet Aid For Planned Highway



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Sweden-Vietnam: The Vietnamese National Liberation Front is moving ahead with plans approved by the Swedish Government last spring to open an "information office" in Stockholm. The front, which is opening a similar office in Paris, is now negotiating for the rental of well-located premises in central Stockholm, [REDACTED]

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The ruling Social Democrats and Communists appear to be competing for the front's favor. The Social Democrats, who have previously subsidized foreign groups such as the antijunta Greeks, now have the inside track, with their offer of a choice site and a reported subsidy of about \$17,000. [REDACTED]

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Uruguay: The Communist Party has called a 24-hour general strike beginning today. All but essential services are to be stopped, and workers and students are to occupy Montevideo factories. The strikers are protesting the government's wage freeze and are demanding an end to the state of siege instituted several weeks ago because of student and labor demonstrations. They are also trying to influence Congress against passage of legislation regulating labor agitation and reforming the national university. It is unlikely that the strike will be completely effective, and the security forces should be able to prevent any disorders from becoming widespread. [REDACTED]

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